

PROFESSIONAL SERVICES PRICING PRACTICES

INPUT

PROFESSIONAL SERVICES
PRICING PRACTICES

PREPARED FOR
MARTIN MARIETTA DATA SYSTEMS

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I. INTRODUCTION

In March and April 1983 INPUT conducted a study for Martin Marietta Data Systems to identify the pricing practices in the professional services industry.

Interviews were conducted by telephone; the names of companies to be contacted were developed jointly by INPUT and Martin Marietta. Martin Marietta was not identified as the client. Interviewees were offered a summary of the study as an incentive to take part. Martin Marietta will have an opportunity to review the summary prior to its dispatch.

- A copy of the questionnaire used is in Appendix A. This questionnaire was reviewed with Martin Marietta prior to use.

- The names of companies interviewed are in Exhibit 1.

- . Note: ASK Computer declined to answer most questions since it does not consider itself to be in the professional services market, but selling entire, standard systems; modifications are discouraged.

- The titles of those interviewed are in Exhibit 2. Senior management was almost always interviewed because of the sensitive nature of the data as well as management level knowledge required.



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EXHIBIT 1
FIRMS INTERVIEWED

EDS
INFORMATICS
CSC/INFONET
KEANE ASSOCIATES
GEISCO
LTI
AMERICAN MANAGEMENT SYSTEMS
DATACARE
MC AUTO
ARTHUR ANDERSEN
A.O. SMITH
DASD
SPIRADELLIS
MONCHIK-WEBER
CDC
EDS/FEDERAL SYSTEMS
ASK

EXHIBIT 2
INTERVIEWEE TITLES

SYSTEMS ENGINEERING MANAGER
VICE PRESIDENT OPERATIONS
MANAGER, PROFESSIONAL SERVICES
MANAGER FINANCE, SYSTEMS DEVELOPMENT AND
CONSULTANTS
SENIOR VICE PRESIDENT
MANAGER OF GOVERNMENT PROGRAMS
DIRECTOR OF ADMINISTRATIVE SERVICES
MANAGER OF MARKET RESEARCH
PARTNER
DIRECTOR OF PLANNING
SENIOR VICE PRESIDENT OF DEVELOPMENT
CHIEF OPERATING OFFICER
STRATEGIC PLANNER/PROFESSIONAL SERVICES
GROUP VICE PRESIDENT

II. Respondent Data

- Respondent size and growth rates, based on available data, are shown in Exhibit 3.
- The respondent companies view themselves as being in multiple markets (Exhibit 4).
 - Originally, it was planned to segment companies by whether they were in the ~~F~~ederal market or not.
 - However, only one company saw itself as only in the ~~f~~ederal market, so that segmentation was not feasible.
- The respondents generally see themselves as having many competitors (Exhibit 5). These competitors are varied, including professional service firms, processing firms, accounting firms and, increasingly, hardware companies.

III. Pricing and Factors Affecting Pricing

- The average 1983 rate per hour ranges from \$101 for an account manager to \$39 for a junior programmer (Exhibit 6). The titles and definitions are those used by Martin Marietta; respondents noted where their definitions differed.
 - Exhibit 7 shows the data for each company.

EXHIBIT 3

RESPONDENT PROFILES: NON-CAPTIVE PROFESSIONAL SERVICES DATA

	1981 REVENUES (\$ MILL)	PERCENTAGE GROWTH (1980 TO 1981)
EDS	\$ 206	17%
INFORMATICS	34	10%
CSC/INFONET	389	15%
KEANE ASSOCIATES	12	-1.3%
GEISCO	56	
LTI	See GEISCO	-
AMERICAN MANAGEMENT SYSTEMS	31	3%
DATAWARE	*	
MC AUTO	20	16%
ARTHUR ANDERSEN	191	30%
A.O. SMITH	*	
DASD	22	12%
SPIRADELLIS	14	44%
MONCHIK-WEBER	10	98%
CDC	80	14%
EDS/FEDERAL SYSTEMS	See EDS	-
ASK	**	-

* NO DATA AVAILABLE

** NO PROFESSIONAL SERVICES REVENUES REPORTED

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EXHIBIT 4

PRIMARY AND SECONDARY PROFESSIONAL SERVICE AREAS

(P=Primary, S=Secondary)

VENDOR	COMM'L	GOVERNMENT			MFG.	BANKING / FINANCE	HEALTH	OTHER
		FED. ADP	ECS	NON- FED.				
EDS	P				P			P
Informatics	P	P		P	S	P	S	
CSC/Infonet	P				S	P	S	
Keane Assoc.	P				P		S	
GEISCO	P	S			P	P	S	
LTI	P			P	P	P	S	
American Mgmt. Sys.								
Datacare							P	
McAuto	P	P		P	P	P	P	
Arthur Andersen	P	S		S	P	P	P	
A.O. Smith					S	P		
DASD	P				P	P	P	
Spiradellis	P	S	S	S	S	P	P	
Monchik-Weber	S					P		
CDC	P	P	S	S	P	S	P	
EDS/Fed. Sys.		P		P				

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EXHIBIT 5

PRIMARY COMPETITION

<u>VENDOR</u>	<u>COMPETITORS (* = FUTURE)</u>
EDS	*Burroughs, *IBM, *Data General
Informatics	CSC, Planning Research
CSC/Infonet	Other RCS firms - Price; Consulting Cos. - Flexibility
Keane Associates	Computer manufacturers*
GEISCO	In-house, McAuto, Boeing, Tymshare, Rapidata, *IBM, *American Telephone
LTI	Big 8 accounting firms
American Mgmt Sys	Booz Allen, McKinzey, Arthur Andersen, Peat Marwick, *Arthur Young & Co.
Datacare	Technicon
McAuto	Arthur Andersen, Informatics, Boeing, In-house, *Big 8
Arthur Andersen	Big 8, AMS, CSC, EDS, Booz Allen, A.D. Little (a bit)
A.O. Smith	Applied Comms. Inc. (ACI), ANACOMP-Kransley, GEISCO (Bank Systems)
DASD	EDS, CSC, Computer Task Group
Spiradellis	Lambda, CGA, OSI
Monchik-Weber	Consulting - Big 8; Devel. - in-house, body shops and independents, Production - (ADP) any D.P. production services
CDC	*Small education courseware cos. - Micro cos. A.D. Little - established market presence; IBM - reputation, products; Computervision - strong products; McAuto, CSC
EDS/Fed. Sys.	CSC, Planning Research, SDC/Burroughs, CDSI, CACI

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EXHIBIT 6
1983 RATES (AVERAGE)

<u>TITLE</u>	<u>RATE</u>
ACCOUNT MANAGER	\$101
PROJECT LEADER	79
PRINCIPAL CONSULTANT	97
SENIOR CONSULTANT	91
CONSULTANT	76
PRINCIPAL DESIGNER	69
SR. SYSTEMS ANALYST	60
SYSTEMS ANALYST	50
JR. SYSTEMS ANALYST	45
SR. PROGRAMMER	47
PROGRAMMER	41
JR. PROGRAMMER	39

EXHIBIT 7

1983 \$'s RATES (* = Variance from Definition - See Exhibit 8)

VENDOR	ACCT MGR	PROJ LEAD	PRIN CONS	SR CONS	CON S	PRIN DES	SR		JR		SR		JR	
							SA	SA	SA	SA	PROG	PROG	PROG	PROG
EDS	* 55	* 55	* 55	* 55	* 55	* 55	* 55	* 55	* 55	* 55	* 55	* 55	* 55	* 55
Informatics	60	80	55	50	50	40	37	37	35	40	40	30	30	30
CSC/Infonet	N/A	63	70	71.50	63	54	47	39	34	47	47	39	34	34
Keane Assoc.	N/A	N/A	62.50	37.50	25	25	25	25	18.75	18.75	18.75	18.75	18.75	18.75
GEISCO	* 90	* 90	125	105	105	* 80	* 80	70	60	70	70	60	52.50	52.50
LTi	All Proprietary													
American Mgmt. Sys.	* 117.50	* 117.50	117.50	65	55	85	52	42	35	47	47	35	N/A	N/A
Datacare	80	70	90	90	N/A	80	80	70	55	80	80	70	55	55
McAuto	See Exhibit 8													
Arthur Andersen	160	125	175	160	125	80	* 52			*			*	*
A.O. Smith		* 90	* 110	* 110		90	75		65					
DASD		42	65	50	45	42		35	N/A	30		N/A	N/A	N/A
Spiradellis	N/A	60	90	80	65	72.50	55	55		45		35	N/A	N/A
Monchik-Weber		* 137	137	100	100	* 80	80	65		50		40		
CDC			175	150	131	100	76	65	55	45		41	37	37
EDS/Fed. Sys.														
ASK	* 65	* 65	* 65	* 65	* 65	* 65	* 65	* 65	* 65	* 65	* 65	* 65	* 65	* 65

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- Note the larger variation between companies.
 - . Generally, the ratio between the most and least expensive company was largest in the more senior positions.
 - . This ratio was not affected by whether a company used the same title definition as Martin Marietta.
- Variations between respondent title definitions and those of Martin Marietta are shown in Exhibit 8.
- Exhibit 9 shows the expected rate increase, from 1981 to 1984, using 1980 as the base year.
 - Note how the percent change closely mirrors the inflation rate.
 - Exhibit 10 provides this same data for each respondent.
 - . GEISCO sees the greatest increase from 1980 to 1984, and Datacare, EDS and Informatics the least.
 - . AMS sees the biggest change between 1983 and 1984 and Datacare the least.

EXHIBIT 8

VARIANCES IN RESPONDENT TITLE STRUCTURE

EDS

- Same rate for all staff levels.
- \$90 for new customers.

GEISCO

- Account/Field Manager and Project Leader both included in "Project Manager".
- Principal System Designer and Senior System Analyst both included in "Senior Applications Specialist".

AMS

- Account/Field Manager and Project Leader both included in "Principal" or "Vice President".

MC AUTO

- Rates proprietary .
- Following titles are same as Martin Marietta.
 - Project Leader (5-8 years experience)
 - Consultant Series
 - Programmer

- Following titles vary
 - Sr. Systems Analyst and Sr. Programmer are combined in "Sr. Programmer Analyst".
 - There are no Junior Systems Analysts.
 - Junior Programmer is called "Associate Programmer".
- In addition there is the title "Executive Consultant", with 15-20 years experience.

ARTHUR ANDERSEN

- In the top five Martin Marietta titles there is a general consistency of titles, but with broader rate ranges:

<u>MARTIN MARIETTA</u>	<u>ARTHUR ANDERSEN</u>	<u>\$ RANGE</u>
Account/Field Mgr.	Young Partner/Top Mgr.	\$140-180
Project Leader	Younger Manager	\$110-140
Principal Consultant	Young Partner or Top Manager	\$150-200
Senior Consultant	Young Partner or Top Manager	\$140-180
Consultant	Younger Manager	\$110-140

- "Partners" (off this scale) have a range of \$180-275.
- Senior technical staff have a range of \$65-95.
- Other technical staff have a range of \$45-60.

A.O. SMITH

- Project Leader equated to "Project Manager".
- Principal and Senior Consultants are one title.

MONCHIK-WEBER

- Principal System Designer is equated to a Principal Consultant with a range of \$125-150.
- A Principal System Designer is equated to a Senior Systems Analyst.

ASK

- Same rate for all staff levels.

EXHIBIT 9
BILLING RATE INCREASES
(AVERAGE)

<u>YEAR</u>	<u>INDEX</u>	<u>PERCENT CHANGE</u>
1980	100	-
1981	109	9%
1982	118	8%
1983	123	4%
1984	130	6%

EXHIBIT 10

BILLING RATE INCREASES (1980 = 100)

<u>VENDOR</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
EDS	100	110	115	120
Informatics	110	115	115	120
CSC/Infonet	110	120	120	130
Keane Assoc.				
GEISCO	116	130	142	153
LTI				
American Mgmt. Sys.	100	110	110	125
Datacare		20%		Static
McAuto				
Arthur Andersen	110	123	133	136
A.O. Smith				
DASD	110	118	124	
Spiradellis	110	113	121	127
Monchik-Weber	108	122	122	128
CDC	112	119	125	128
EDS/Fed. Sys.	112	120	126	133

- Competition and costs were seen as the most important factors affecting pricing and inflation and turnover the least important (Exhibit 11).

- Note, however, that cost/inflation and personnel shortage/turnover are each closely related.

- Exhibit 12 shows the individual ratings for each respondent.

V. Pricing Practices

- Exhibit 13 shows under what conditions respondents make variations from their standard rates.

- The amount of competition and the related factors of expertise and customer type are the most common.

- Discounts are common (Exhibit 14), typically for large jobs or in competitive situations.

- Billing practices are essentially the same for task-oriented as for time and materials work (Exhibit 15).

- Where companies use the same rate structure for fixed price work, they generally add a surcharge (Exhibit 16).

EXHIBIT 11

IMPORTANCE OF FACTORS ON BILLING RATES
(SUMMARY)

<u>FACTOR</u>	<u>IMPORTANCE*</u>
COMPETITION	3.7
COSTS	3.6
TOOLS	3.4
PERSONNEL SHORTAGE	3.2
CUSTOMERS' FINANCES	3.0
INFLATION	2.6
TURNOVER	2.3

* 1 = LOW, 5 = HIGH

EXHIBIT 12

IMPORTANCE OF FACTORS ON BILLING RATES

<u>VENDOR</u>	<u>INFLATION</u>	<u>TURNOVER</u>	<u>COSTS</u>	<u>CUSTOMERS' FINANCES</u>	<u>PERSONNEL SHORTAGES</u>	<u>COMPE- TITION</u>	<u>TOOLS</u>
EDS	4	2	3	1	1	1	1
Informatics	5	3	5	4	4	4	2
CSC/Infonet	1	1	1	1	4	5	3
Keane Assoc.	1	1	3	5	3	3	5
GEISCO	3	1	2	4	1	4	4
LTI							
American Mgmt. Sys.	3	4	4	2	3	5	4
Datacare		2	5	3	2	4	DK
McAuto	4	1	4	2	3	3	3
Arthur Andersen	2	2	3.5	3	4		1
A.O. Smith	1	1	5	5	5	5	5
DASD	3	5	4	3	4	2	
Spiradellis	2	3	3	4	5	4	5
Monchik-Weber	4	2.5	4	3	4	4	3
GDC	3	1	4	2	2	4	5
EDS/Fed. Sys.	1	5					

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EXHIBIT 13

VARIATIONS FROM STANDARD RATES

<u>VENDOR</u>	<u>CUST. TYPE</u>	<u>APPL. TYPE</u>	<u>AMOUNT OF COMPETITION</u>	<u>GEOGRAPHY</u>	<u>EXPERTISE</u>	<u>OTHER</u>
EDS						
Informatics	X		X		X	
CSC/Infonet						X
Keane Assoc.					X	
GEISCO	X		X			
LTi			X	X		
American Mgmt.						
Datacare			X		X	
McAuto						
Arthur Andersen				X	X	
A.O. Smith	X		X		X	
DASD	X				X	
Spiradellis			X	X	X	
Monchik-Weber						
CDC	X					
EDS/Fed. Sys.						

EXHIBIT 14

DISCOUNTS

VENDOR	DETAILS	
	YES	NO
EDS		X
Informatics	X	
CSC/Infonet	X	
Keane Assoc.	X	
GEISCO	X	
LTI		
American Mgmt. Systems	X	
Datacare	X	
McAuto	X	
Arthur Andersen	X	
A.O. Smith		X
DASD	X	
Spiradellis	X	
Monchik-Weber		X
CDC		X
EDS/Fed. Sys.		

Rarely.

Contracts over \$100K.

Multiple sales installations or long contracts.

On site work, long term, meet competition.

Proprietary.

Government procurement regulations.

Assessment of competition and geographic location of client.

Competitive, size of contract, multi-year.

Only if partner or division decide to propose to do work for less, or government contracts.

Only on large jobs.

Annual volume discounts, rebate based on turnover.

Four types of hourly volume discounts in all categories.

Cost build ups - need to demonstrate profit won't exceed certain % of costs.

EXHIBIT 15

BILLING PRACTICES FOR TASK-ORIENTED WORK

VENDOR	TASK-ORIENTED SAME AS T+M?		REASONS
	YES	NO	
EDS	X		No distinction.
Informatics		X	Task order is higher and includes mgmt. responsibility.
CSC/Infonet	X		Company policy because of volume and % of federal government business.
Keane Assoc.		X	Would benefit customer if project similar to another.
GEISCO	X		Better estimates on module basis.
LTI	X		No tools to reduce time effort.
American Mgmt. Systems	X		Work fixed priced by deliverables.
Datacare	X		Have no reason not to.
McAuto	X		Cost build up rather than value or market pricing.
Arthur Andersen	X		Billing rates related to experience.
A.O. Smith	X		No task to hang dollar on - either FP or T+M.
DASD	X		Majority of work is T+M - easier to treat in same manner.
Spiradellis	X		Cost structures are the same except for contingency factors.
Monchik-Weber	X		Only have one set of rates.
CDC	X		
EDS/Fed. Sys.	X		Costs don't change - same cost basis.

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EXHIBIT 16

FIXED PRICE PROPOSALS

VENDOR	FIXED PRICE USES SAME RATE STRUCTURE AS T+M	SURCHARGE	
		YES	NO
FDS	Lower rates for addtl development for existing customer		X
Informatics	No fixed price		N/A
CSC/Infonet	No fixed price		N/A
Keane Assoc.	Depends on company and for what		X
GEISCO	Very little fixed price	X	
LTI	Start at T+M but much grey area	X	
American Mgmt. Sys.	Yes	X	
Datacare	Attempt		X
McAuto	Yes	X	
Arthur Andersen	Yes, rare fixed price except with government	X	
A.O. Smith	No, fixed price is based on competition		X
DASD	Yes, majority of work is T+M, easier to treat the same	X	
Spiradellis	Yes, cost structures are the same except for contingencies	X	
Monchik Weber	Yes, only have 1 set of rates	X	
CDC	Yes	X	
EDS/Fed. Sys.	Yes, costs don't change		

APPENDIX A :
QUESTIONNAIRE

PROFESSIONAL SERVICES PRICING PRACTICES

INPUT is a research and consulting firm in Saddle Brook, NJ. We are conducting a study on professional service firms' pricing practices. In return for your taking part in our study, we will send you a summary of our report at no charge.

1. Is your professional service business nationwide or is most of your work conducted in particular geographic areas?

☐ Nationwide

☐ Particular areas - Which ones?

2. Is each of the following customer or product areas a primary or secondary priority for your professional services activities?

	<u>Primary</u>	<u>Secondary</u>
Commercial Accounts	_____	_____
Government Accounts	_____	_____
Federal ADP	_____	_____
Federal Embedded Computer (Weapons) Systems	_____	_____
State and Local	_____	_____
Manufacturing Applications	_____	_____
Banking and Finance Applications	_____	_____
Health Care Applications	_____	_____
Other (describe)	_____	_____

- 3a. What professional service firms do you see as your primary competition now?
What do you see as their strengths?

- 3b. What other firms do you think might be added to that list in two or three years?

5a. When producing a fixed price proposal, do you use the same rate structure as used on T&M projects for project personnel?

☐ Yes ☐ No

If NO, describe differences: _____

5b. Where not doing fixed price work, do you use the same billing rate for straight T&M engagements as for task-oriented engagements (even if billed for on a T&M basis)?

☐ Yes ☐ No

Why? _____

If NO, discuss differences: _____

5c. Is a "surcharge" or "contingency factor" added to fixed price proposals over and above the result produced by your billing rate calculations (includes measuring number of hours)?

☐ Yes ☐ No

If YES, how much, on the average? _____

5. How important is each of the following factors in affecting changes in your billing rates (1 = low, 5 = high)? Why?

	<u>Importance</u>	<u>Reason</u>
General Inflation Rate	_____	_____
	_____	_____
Your Firm's Personnel Turnover	_____	_____
Your Cost Structure	_____	_____
Your Customers' Economic Conditions	_____	_____
	_____	_____
Personnel Shortages	_____	_____
Your Competitors' Rates	_____	_____
	_____	_____
Proprietary Productivity Tools or Approaches	_____	_____

7. If the average billing rates for your firm's management and technical staff equalled 100 in 1980, how would you see this index changing for your firm in each year up to 1984? Why?

<u>Year</u>	<u>Index</u>	<u>Reason</u>
1980	<u>100</u>	_____
	_____	_____
1981	_____	_____
	_____	_____
1982	_____	_____
	_____	_____
1983	_____	_____
	_____	_____
1984	_____	_____
	_____	_____

8. Do you have formal variations (either higher or lower) from your standard rates related to:

	<u>Yes</u>	<u>No</u>
• Type of Customer (e.g., commercial vs. government)	_____	_____
• Application Type (e.g., manufacturing vs. general commercial)	_____	_____
• Competitive vs. Noncompetitive Situations	_____	_____
• Geographic Area	_____	_____
• Special Expertise	_____	_____
• Other (describe) _____	_____	_____

FOR ALL AREAS ANSWERED "YES," ASK:

- Why?
- Give some examples.
- How large is the variance?

COMPLETE ANSWERS ON ATTACHED SHEET.

8b. DESCRIPTION OF RATE VARIATION

<u>Area</u>	<u>Reason</u>	<u>Examples</u>	<u>Size of Variance*</u>
Type of Customer (e.g., commercial vs. government)			
Application Type (e.g., manufacturing vs. general commercial)			
Competitive vs. Noncompetitive Situations			
Geographic Area			
Special Expertise			
Other (describe)			

Do you ever give discounts from your standard rates?

☐

Yes

☐

No

IF YES:

• Under what conditions? _____

• How is this accomplished (e.g., reducing hourly rates, reducing billed hours, changing job categories, cost plus fixed fee)?

• About how often does this occur?

• About what percentage reduction from your standard rates is your typical discount? (May be one number or a range.)

10. Could you provide me with your current (1983) rates per hour for the following categories? We have defined each title as including specific years of experience; if you do not use exactly the same definition, please provide the rate for the closest title and tell me what your definition is.

<u>Title</u>	<u>Years Experience</u> *	<u>Title Variance</u>	<u>1983 Rate (\$ per hour)</u>
Account/Field Manager	9 - 12	_____	_____
Project Leader	7 - 10	_____	_____
Principal Consultant (in a specialized area)	10 - 15	_____	_____
Senior Consultant (in a specialized area)	9 - 12	_____	_____
Consultant (in a specialized area)	8 - 10	_____	_____
Principal System Designer	7 - 10	_____	_____
Senior Systems Analyst	5 - 7	_____	_____
Systems Analyst	2 - 5	_____	_____
Junior Systems Analyst	0 - 2	_____	_____
Senior Programmer	5 - 7	_____	_____
Programmer	2 - 5	_____	_____
Junior Programmer	0 - 2	_____	_____

* Not including education.

11. Do you furnish a schedule of professional service rates to prospective clients?

☐ Yes ☐ No

IF YES: Would you send INPUT a copy?

☐ Yes ☐ No

